

**CARPETS INTERNATIONAL (UK)
LIMITED**

Report and Financial Statements

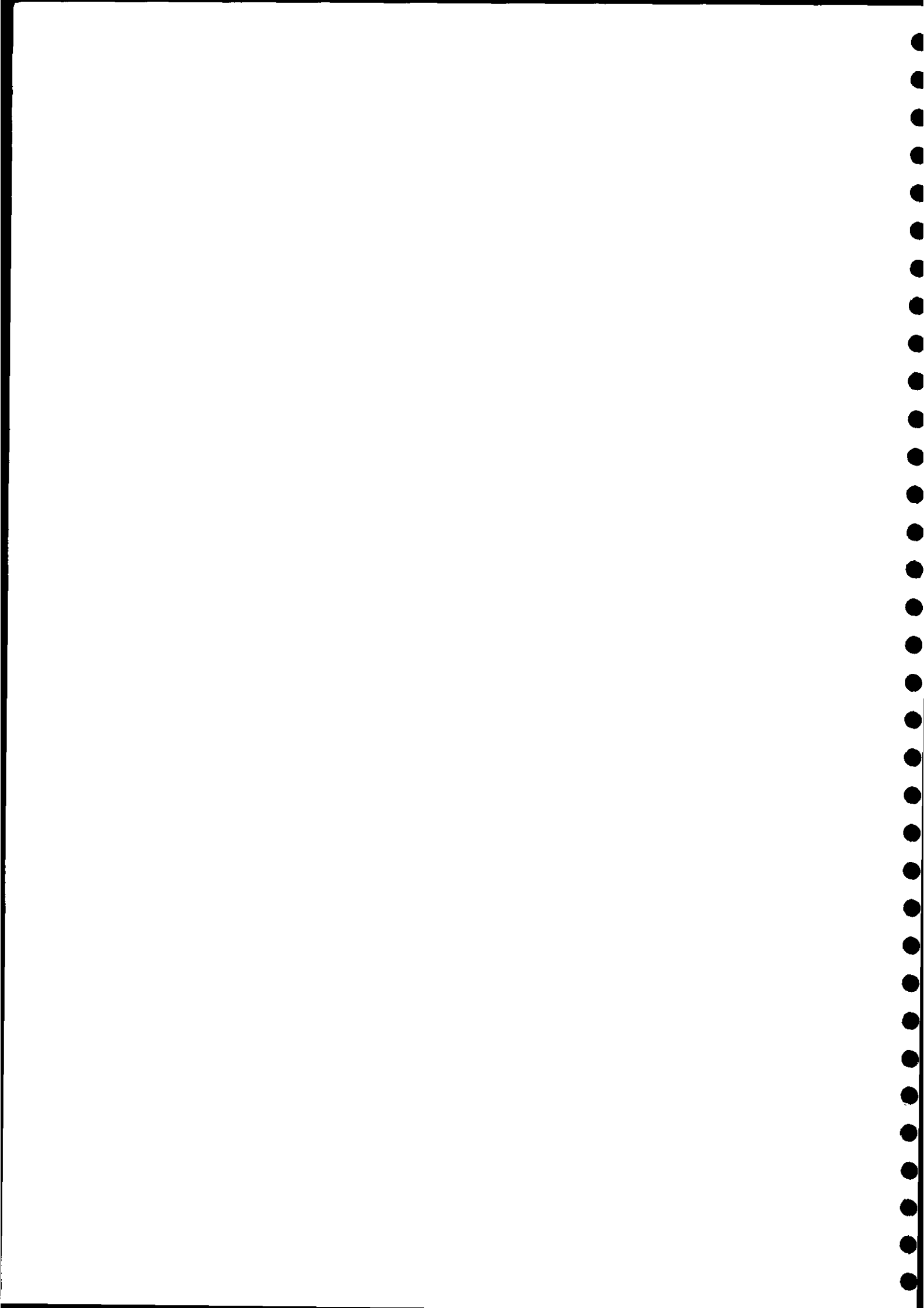
31 December 2002

**Deloitte & Touche
Leeds**



REPORT AND FINANCIAL STATEMENTS 2002

CONTENTS	PAGE
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	5
Independent auditors' report	6
Profit and loss account	7
Balance sheet	8
Notes to the accounts	9



REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R Boe
B A McLean
J J Taylor

SECRETARY

A W Barfield

REGISTERED OFFICE

P O Box 255
4 Coop Place
Rooley Lane
BRADFORD
West Yorkshire
BD5 8XQ

BANKERS

Fleet Boston Financial
39 Victoria Street
LONDON
SW1H 0ED

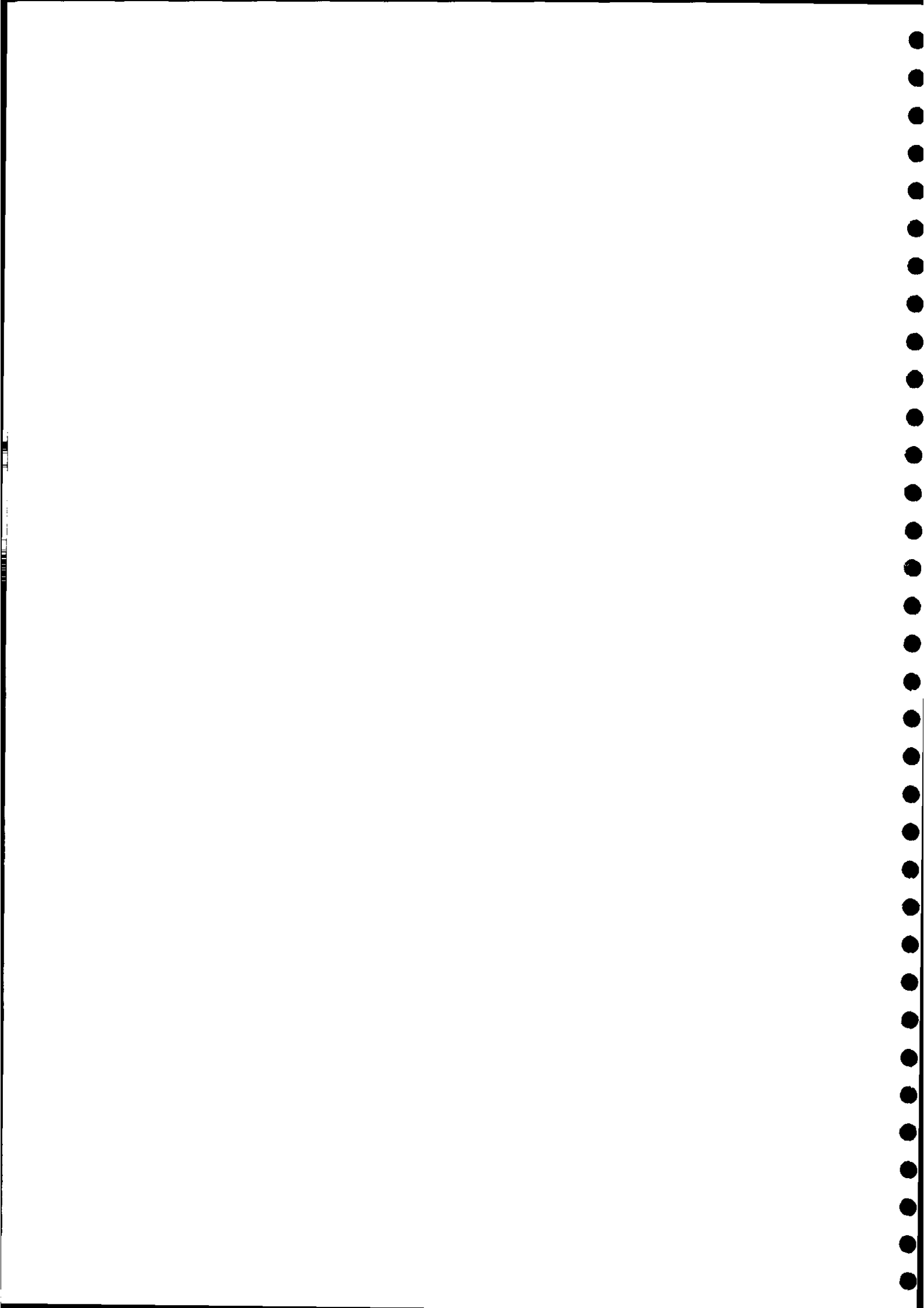
Burdale Financial Limited
53 Queen Anne Street
LONDON
W1M 0HP

SOLICITORS

Eversheds
Cloth Hall Court
Infirmary Street
LEEDS
LS1 2JB

AUDITORS

Deloitte & Touche
LEEDS



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

ACTIVITIES

Carpets International (UK) limited ("C.I.") is the UK's largest manufacturer of tufted carpets. It operates vertically integrated, multi-site, manufacturing activities involving fibre extrusion; yarn spinning, twisting, heat-setting; and carpet tufting, dyeing, printing and finishing of all major types of carpet.

C.I.'s carpets are made with face fibres of nylon, polypropylene, wool and polyester and are sold primarily into the residential market in the U.K. Its brands are amongst the most widely recognised in the market and include Kosset, Wilton Royal, Abingdon Crossley and Lancaster. The company also produces specialised broadloom and tile ranges into the commercial sector, marketed under its C.I. Contract brand. C.I.'s well-established 5 year stain warranty has recently been upgraded to include a 10 year stain warranty for most products as well. New 5, 7 and 10 year wear warranty programmes for specific styles provide additional strength to its highly regarded product offering.

The company provides a generally ex-stock delivery service to its large network of specialist retailers and contractors. This is operated through its dedicated transport fleet, located at its purpose-built warehouse and distribution centre in Hull.

A comprehensive business restructuring plan was undertaken in 2001, involving a major rationalisation of production facilities. As a result of this plan, three production sites were closed, the head-office activities were relocated to new premises in Bradford and the total headcount was reduced by over 500 from the previous level of 1,790 employees. Current headcount now stands at 1,204.

The business now operates from six production and distribution sites with all carpet production consolidated at its two main sites at Donaghadee in Northern Ireland and Newbridge in South Wales.

REVIEW OF DEVELOPMENTS

A new financial facility was negotiated with Burdale Financial Limited and put into place in December 2002 to replace the syndicated facility (of whom Burdale was a member) in place at the time.

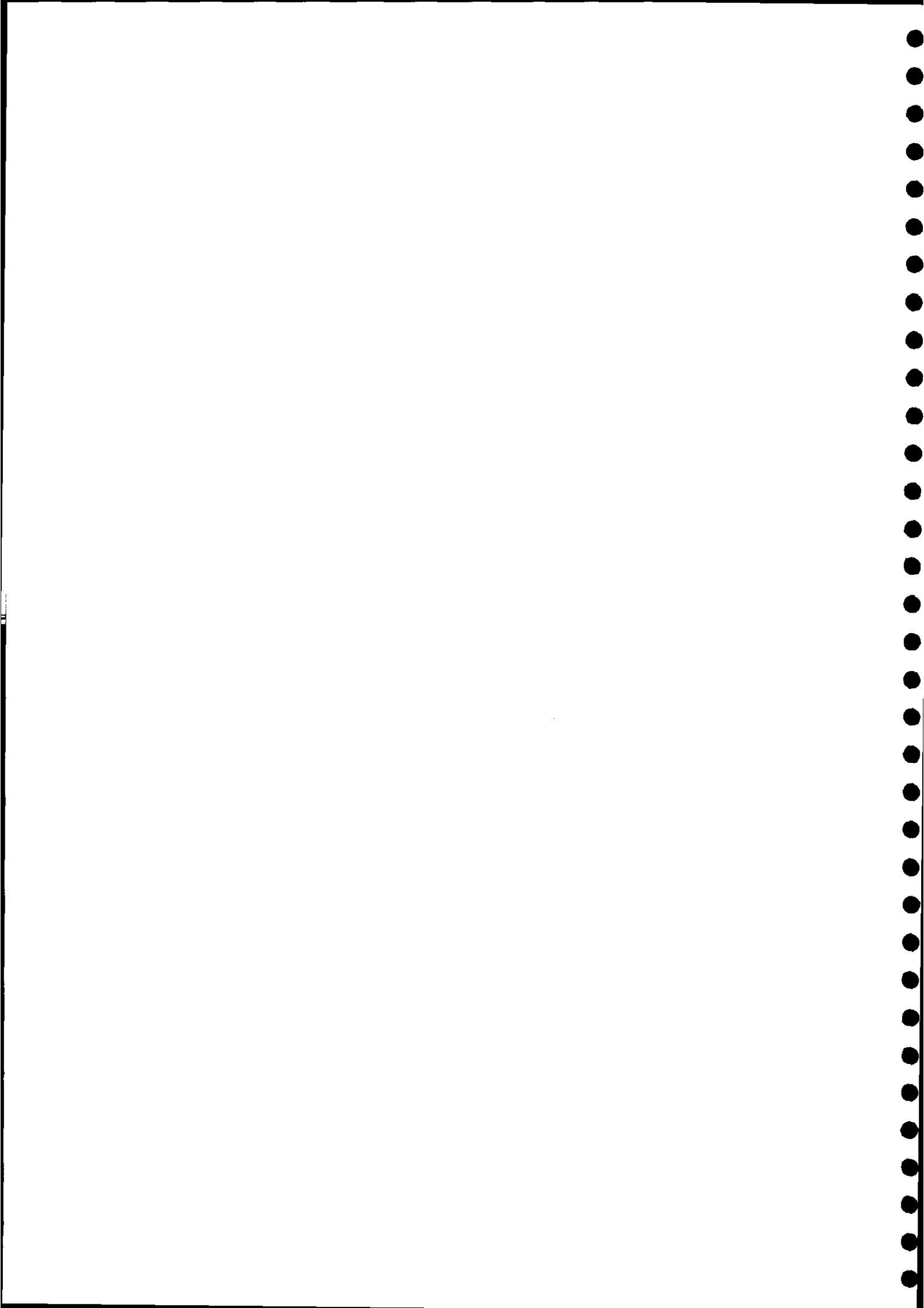
Total sales in the year were 13.7% lower than in 2001. The decline was most marked in the lower end of the market, as the total rationalisation plan was to move to a more middle to upper segment of the market. This rationalisation has improved margins and set the direction for improved profitability in the coming years.

Despite general commentary of sustained strength in the U.K. housing market, driven in part by low interest rates, we did not see appreciable recovery in the current year in most market sectors. Hence unusually strong promotional activity by the major high street retailers was required to support the residential market through the early part of 2002 and continued throughout the remainder of the year.

FUTURE PROSPECTS

C.I. continues to be a leading force in the U.K. carpet industry and remains the largest U.K. producer. As a result of the recent restructuring and through refocusing on our strengths, we are confident that the company's well-laid plans will restore it to a more satisfactory level of profit in 2003 and lay the foundation for sustained longer-term growth and success.

Mr. Jim Taylor joined the company in November 2002 as Managing Director bringing with him years of carpet experience in sales and marketing as well as design. With this knowledge we have restructured our product line to bring it up to date with current market requirements. Reduced SKU'S (Standard Stock Keeping Units) from a high of 1,631 to a more manageable level of 1,264, this will allow better service to all customers, while maintaining lower inventories and enabling us to introduce newer innovated products into the market place.



DIRECTORS' REPORT (continued)

DIVIDENDS

The Directors are unable to propose a dividend (2001: £Nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown below.

R Boe

B A McLean

R L Cravey (resigned 27 November 2002)

M A Hield (resigned 19 August 2002)

J J Taylor (appointed 27 November 2002)

A W Barfield (appointed 19 August 2002, resigned 15 November 2002)

None of the directors have any interest in the company.

The interests of the directors in the parent company, Carpet Holdings Limited, are disclosed in that company's accounts.

PEOPLE

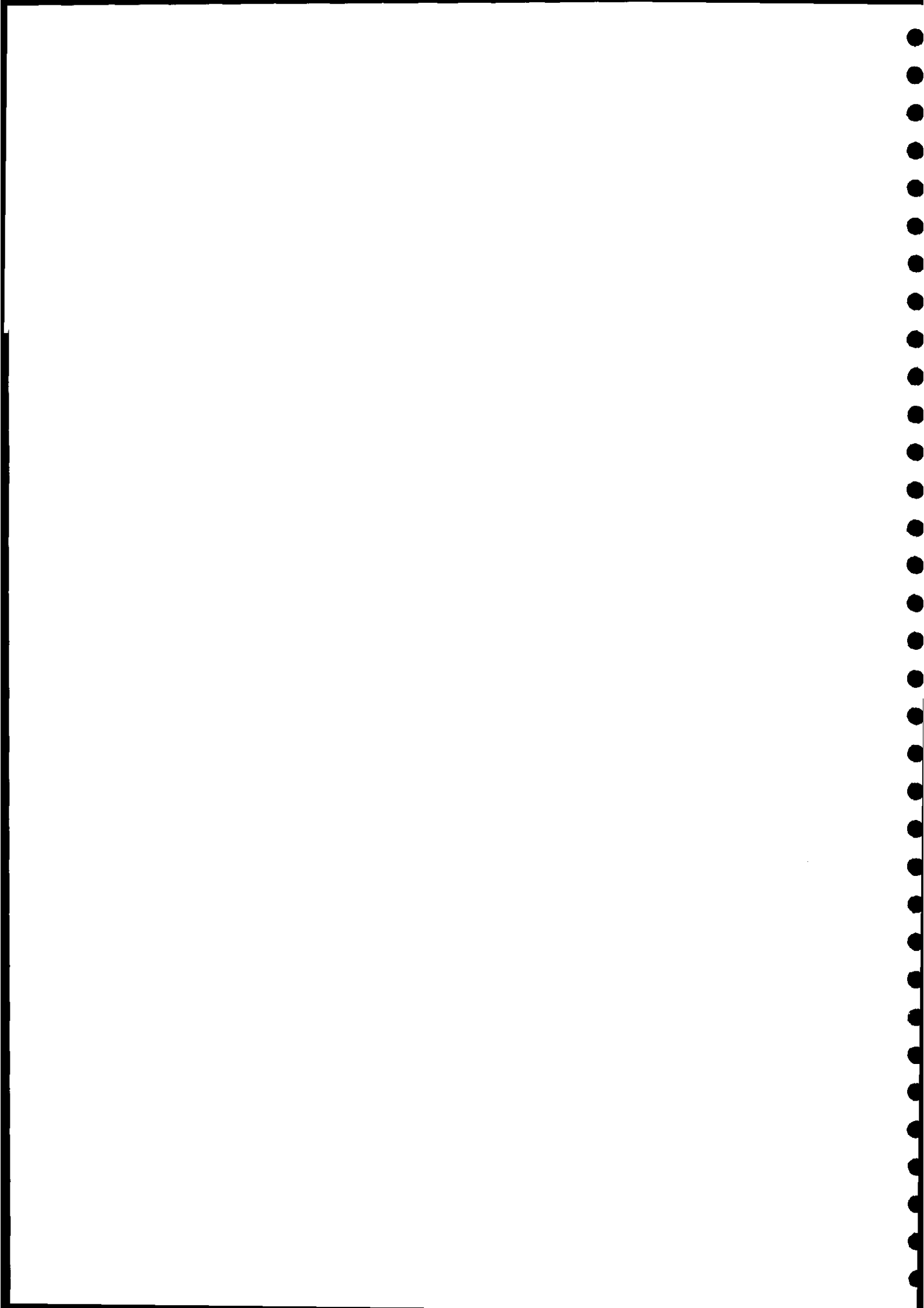
The changes initiated in 2001 and which have moved into full implementation in the current year have placed considerable extra demands on our employees. We thank them all for their unstinting dedication, hard work and loyalty and we also record our appreciation to our suppliers and customers for their sustained support.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

EMPLOYEE CONSULTATION

The company places value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings.



DIRECTORS' REPORT (continued)

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors will be proposed at the forthcoming Annual General Meeting.

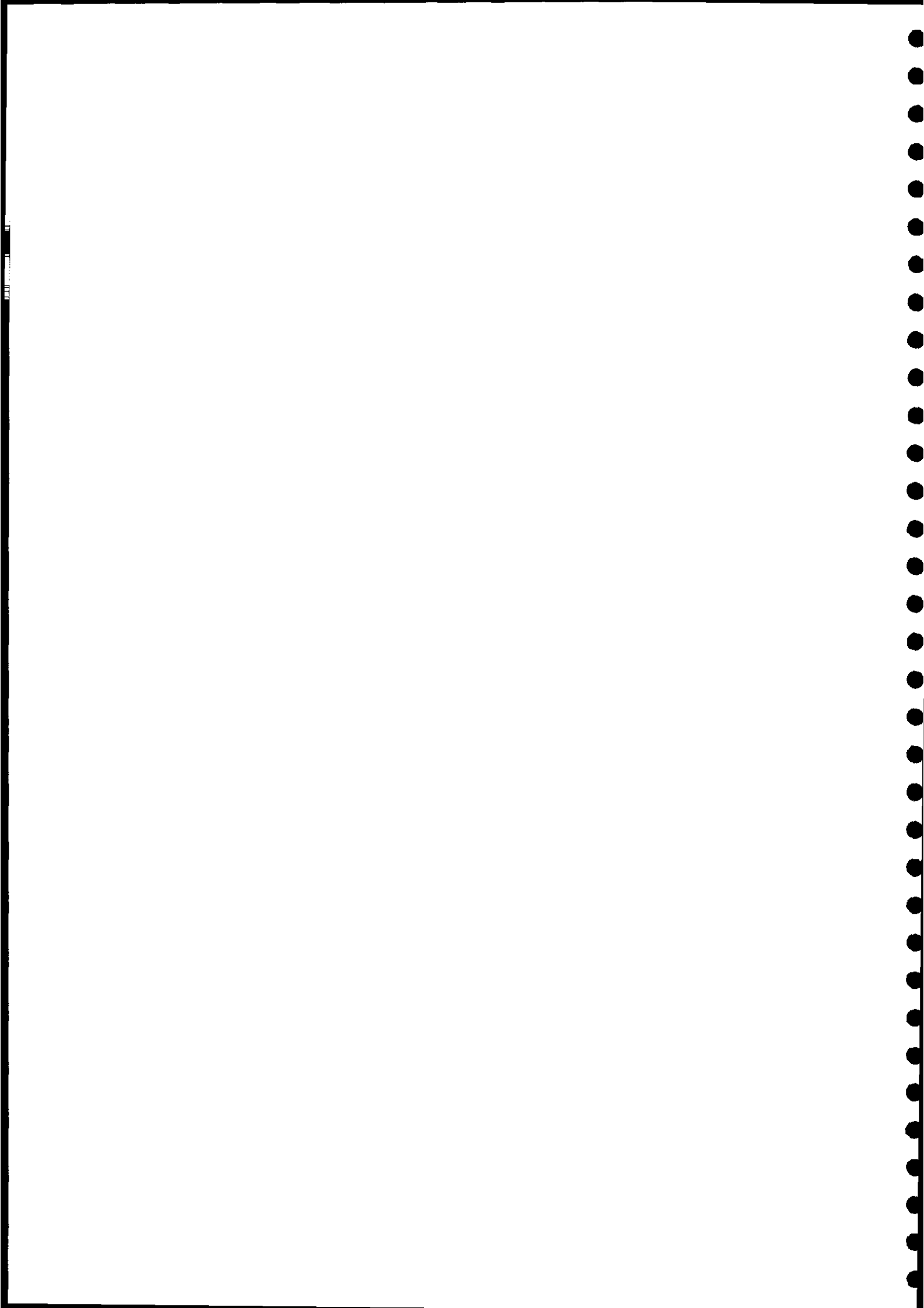
Approved by the Board of Directors

And signed on behalf of the Board

A handwritten signature in cursive script, appearing to read 'A W Barfield', is written over the printed name.

A W Barfield

Secretary

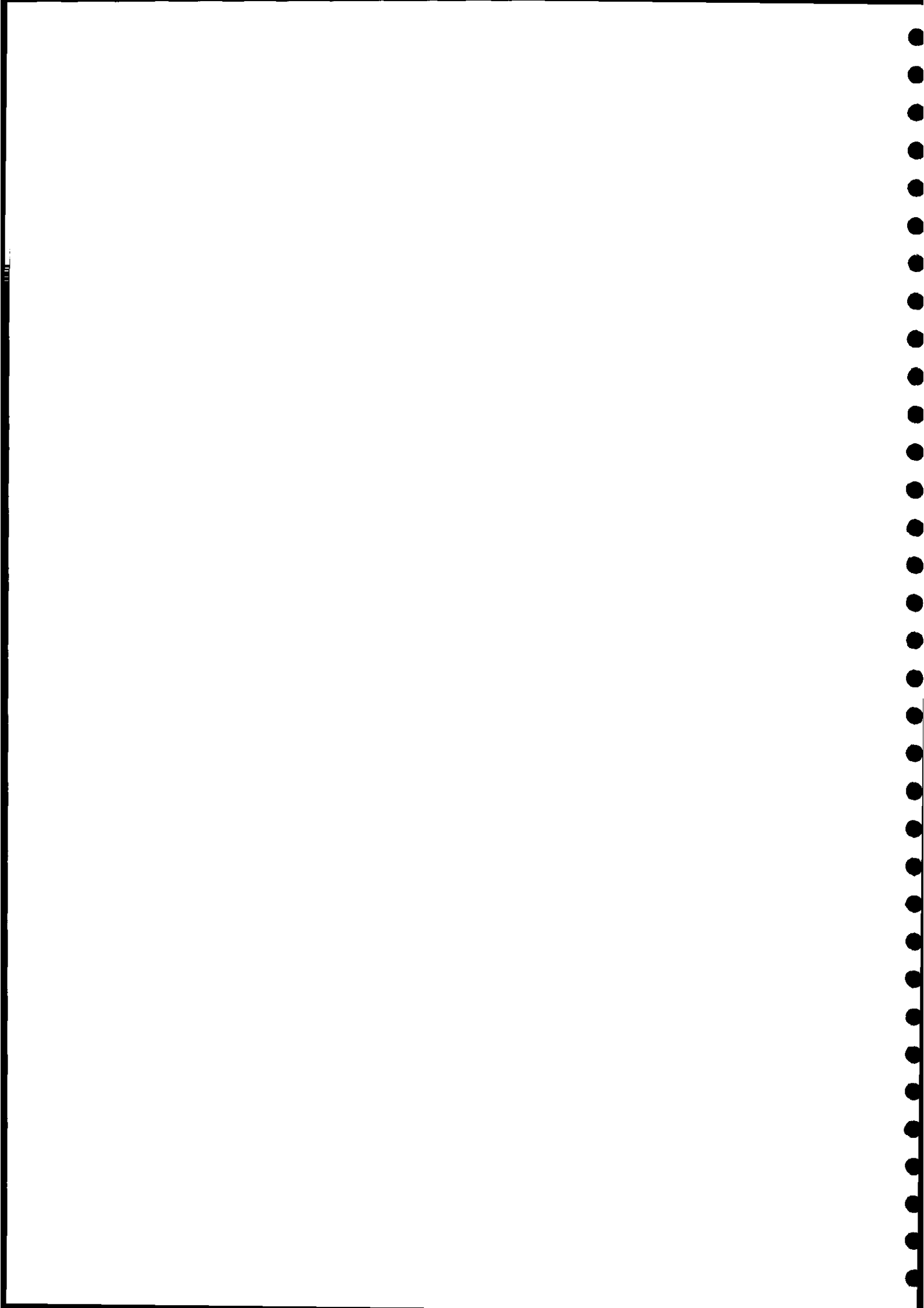


STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARPETS
INTERNATIONAL (UK) LIMITED**

We have audited the financial statements of Carpets International (UK) Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

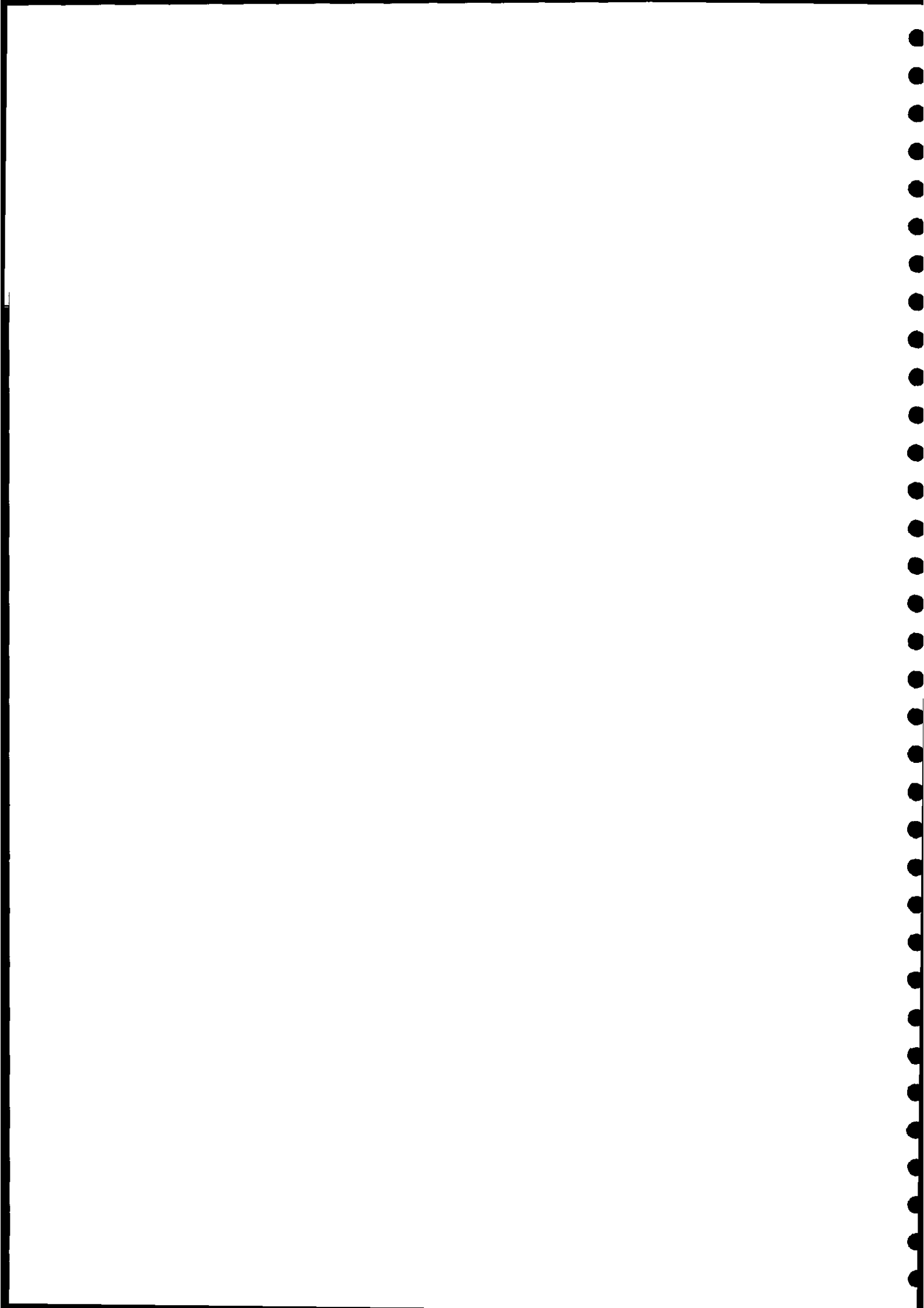
Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and
Registered Auditors
Leeds

Deloitte & Touche

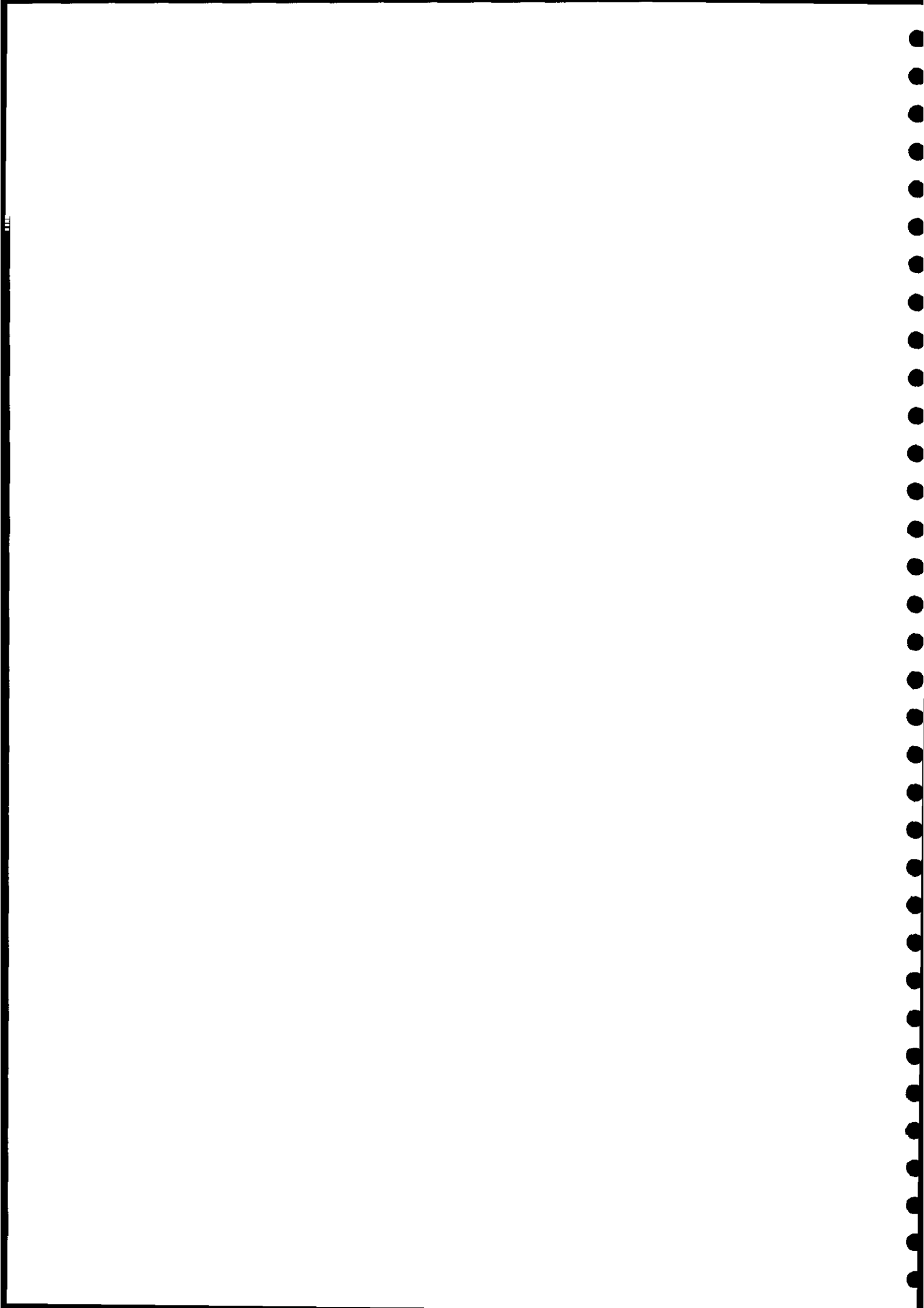
29 May 2003



PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002 £'000	2001 £'000
TURNOVER: continuing operations	2	99,529	115,379
Cost of sales		(80,589)	(96,693)
Gross profit		18,940	18,686
Operating expenses	3	(18,586)	(26,165)
OPERATING PROFIT/(LOSS): continuing operations	4	354	(7,479)
Profit on the disposal of fixed assets		1,445	-
Interest receivable and similar income	5	57	115
Interest payable and similar charges	6	(2,570)	(2,300)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(714)	(9,664)
Tax on loss on ordinary activities	8	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR WITHDRAWN FROM RESERVES	18	(714)	(9,664)

There are no recognised gains and losses for the current or preceding financial year other than as stated above. Therefore, no statement of total recognised gains and losses has been presented.



BALANCE SHEET
31 December 2002

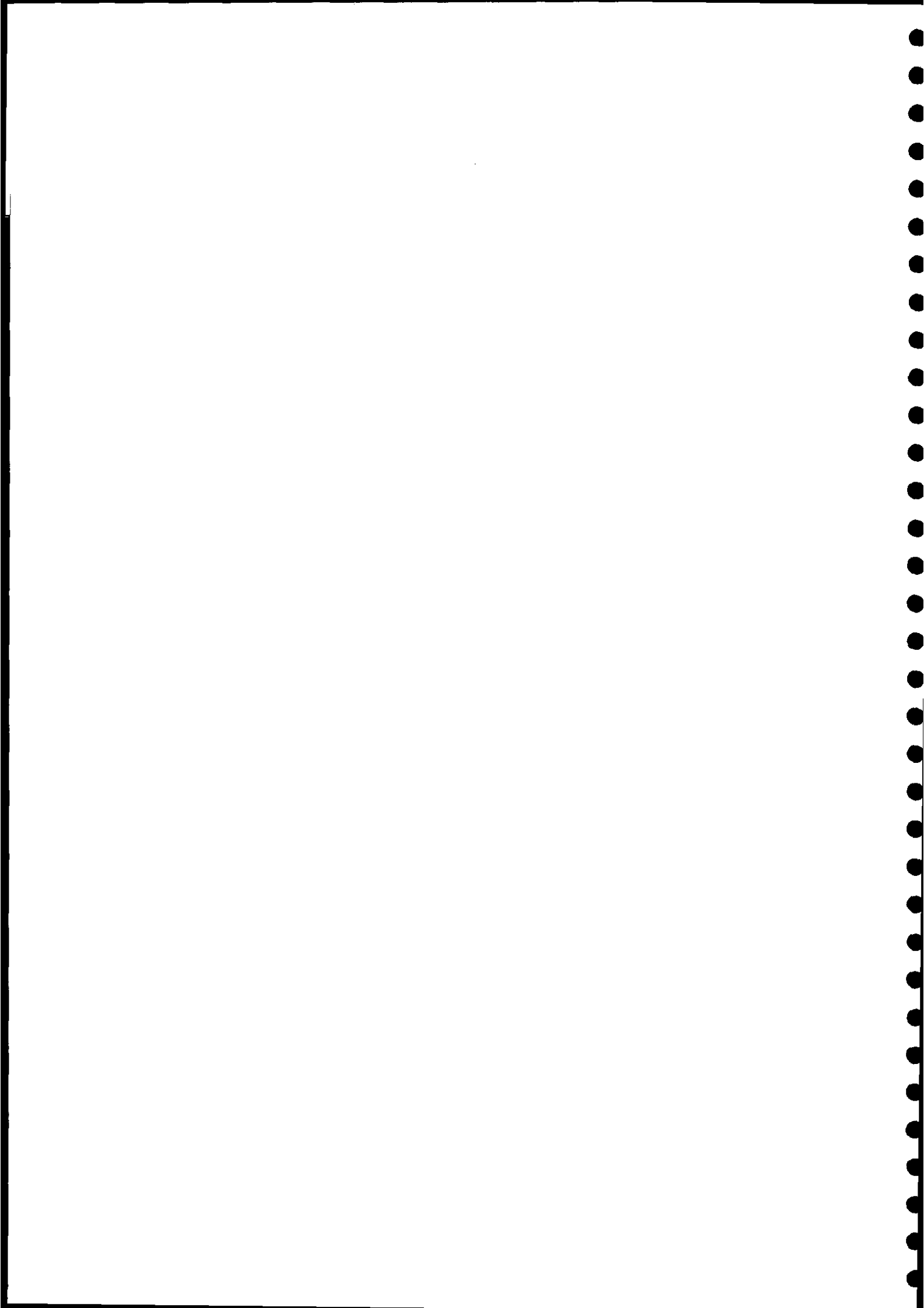
	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Tangible assets	9	14,326	19,055
CURRENT ASSETS			
Stocks	11	22,634	21,101
Debtors	12	15,604	17,489
Cash at bank and in hand		3,692	7,321
		41,930	45,911
CREDITORS: amounts falling due within one year	13	(26,767)	(31,968)
NET CURRENT ASSETS		15,163	13,943
TOTAL ASSETS LESS CURRENT LIABILITIES		29,489	32,998
CREDITORS: amounts falling due after more than one year	14	(23,605)	(24,632)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(1,500)	(3,268)
		4,384	5,098
CAPITAL AND RESERVES			
Called up share capital	16	12,655	12,655
Share premium account	17	160	160
Capital redemption reserve	17	260	260
Capital reserves	17	4,431	4,431
Capital contribution	17	57,454	57,454
Profit and loss account	17	(70,576)	(69,862)
TOTAL EQUITY SHAREHOLDERS' FUNDS		4,384	5,098

These financial statements were approved by the Board of Directors on 26th May 2003.

Signed on behalf of the Board of Directors

B A McLean

Director



NOTES TO THE ACCOUNTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Consolidated accounts

Consolidated accounts have not been presented as the company is a wholly owned subsidiary undertaking of Carpet Holdings Limited, which prepares consolidated accounts and is registered in England and Wales.

Cashflow

During the accounting period, the company was a wholly owned subsidiary of Carpet Holdings Limited. As a result, the company's and group's cashflows will be included in the consolidated cashflow statement of Carpet Holdings Limited and under FRS 1 (Revised 1996), the company is exempt from publishing its own cashflow statement.

Tangible fixed assets

Tangible fixed assets are shown at cost less provision for impairment.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold buildings	50 years
Leasehold land and buildings	Term of lease
Plant and machinery	3 to 10 years

No depreciation is provided in relation to land.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	-	Purchase cost on a first-in, first out basis, including transport
Work-in-progress and finished goods	-	Cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity

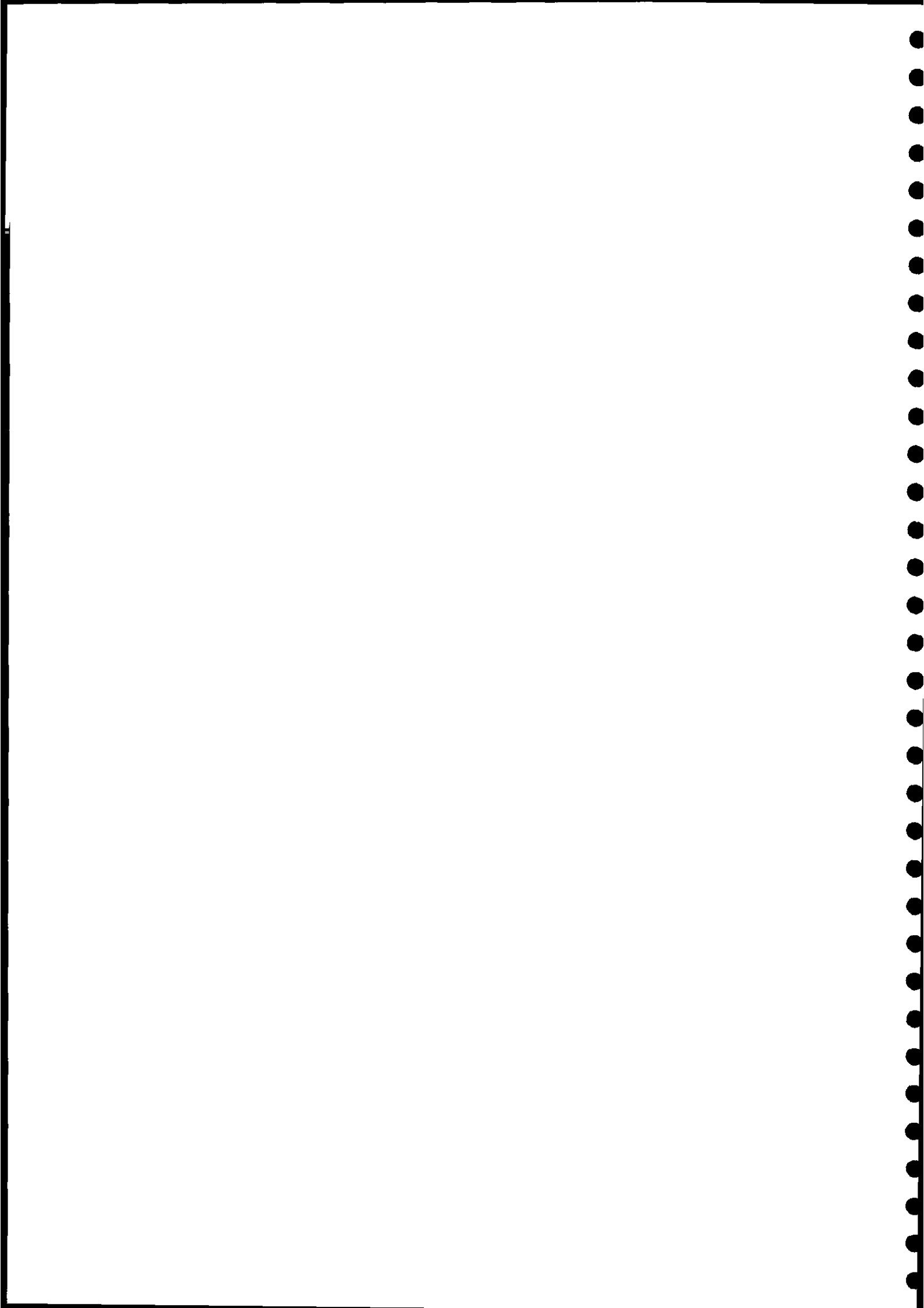
Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets and liabilities are not discounted.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.



NOTES TO THE ACCOUNTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES (continued)

Turnover

Turnover comprises the value of sales (excluding VAT and certain discounts) of goods and services in the normal course of business.

Leases

The company enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Pension costs

The company provides pensions to employees through two funded defined benefit pension schemes. The assets of the schemes are held independently of the company and administered by trustees.

The amount charged to the profit and loss account for the defined benefit schemes is the estimated regular cost of providing the benefits accrued in the period adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working life of scheme members. Any difference between amounts charged to the profit and loss account and contributions paid to the schemes is shown as a liability or asset in the balance sheet.

Further information on pension costs is provided in note 20.

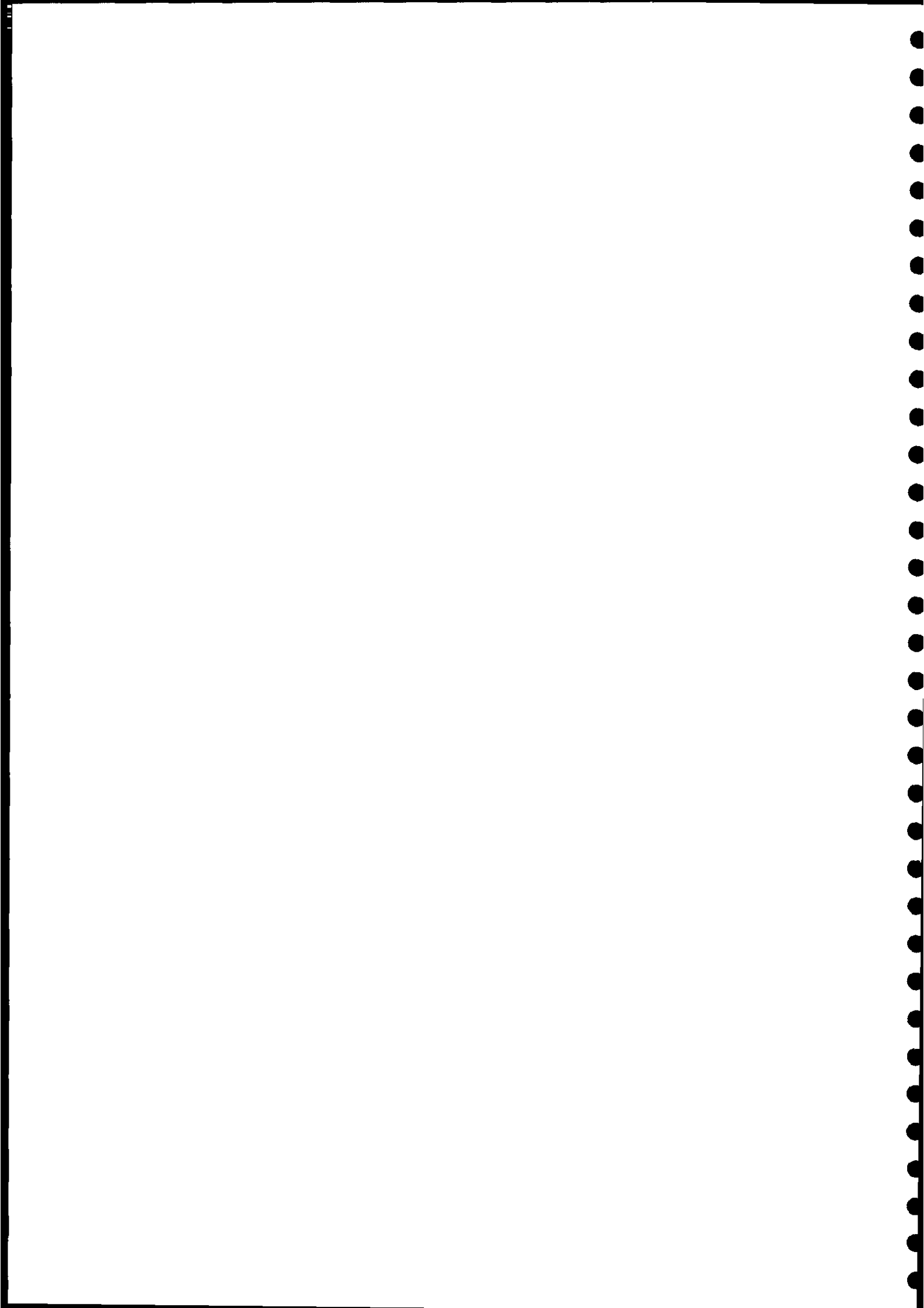
2. TURNOVER

The directors consider that the company operates only one class of business, being its principal activity.

Turnover is analysed by geographical destination as follows:

	2002 £'000	2001 £'000
United Kingdom	96,580	111,785
Europe	2,576	2,943
North America	333	434
Other	40	217
	<hr/> 99,529 <hr/>	<hr/> 115,379 <hr/>

All sales related to the company's principal activities, and originated in the United Kingdom.



NOTES TO THE ACCOUNTS

Year ended 31 December 2002

3. OPERATING EXPENSES

	2002 £'000	2001 £'000
Distribution costs	13,363	14,685
Administrative expenses	5,223	11,480
	<u>18,586</u>	<u>26,165</u>

Exceptional costs of £6,809,000 in 2001 related to the streamlining of the company's operations in order to have a more effective cost base.

4. OPERATING PROFIT/(LOSS)

	2002 £'000	2001 £'000
Operating profit/(loss) is stated after charging:		
Depreciation of tangible fixed assets:		
Owned	2,181	2,744
Held under finance leases and hire purchase contracts	54	210
Impairment of fixed assets	-	614
Loss/(profit) on the sale of fixed assets	12	(677)
Operating lease rentals:		
Land and buildings	1,868	1,592
Plant and machinery	507	676
Vehicles	1,758	1,770
Auditors' remuneration:		
Audit fees	58	48
Non-audit fees	50	210
Increase in pension provision	155	68
	<u> </u>	<u> </u>

Non-audit fees of £75,000 relating to a financing exercise were incurred in the year and have been capitalised.

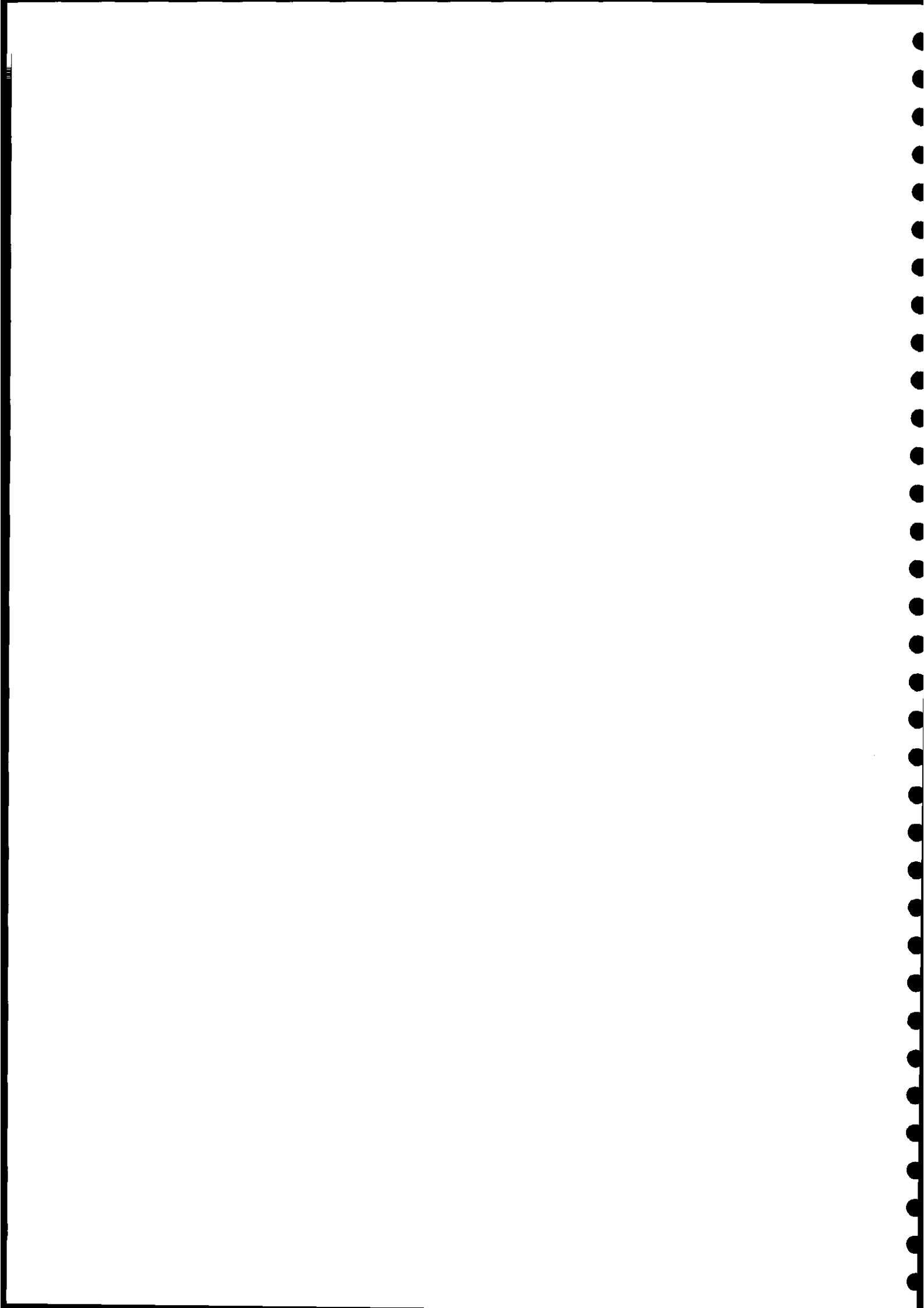
5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £'000	2001 £'000
Bank interest	57	115
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
On bank loans and overdrafts	2,297	2,289
On finance leases and hire purchase contracts	3	11
On amounts owed to other group companies	270	-
	<u>2,570</u>	<u>2,300</u>

All borrowings are repayable within five years.



NOTES TO THE ACCOUNTS

Year ended 31 December 2002

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Particulars of employees (including executive directors) are as shown below:

	2002 £'000	2001 £'000
Staff costs during the year (including directors):		
Wages and salaries	23,752	28,493
Social security costs	1,800	2,084
Pension costs	1,313	1,751
	<u>26,865</u>	<u>32,328</u>

Average number of persons employed:

	2002 No.	2001 No.
Production	820	1,098
Distribution	219	234
Administration and sales	225	226
	<u>1,264</u>	<u>1,558</u>

Directors' emoluments

	2002 £'000	2001 £'000
Emoluments	572	223

	2002 £'000	2001 £'000
Remuneration of the highest paid director	231	133

Pensions

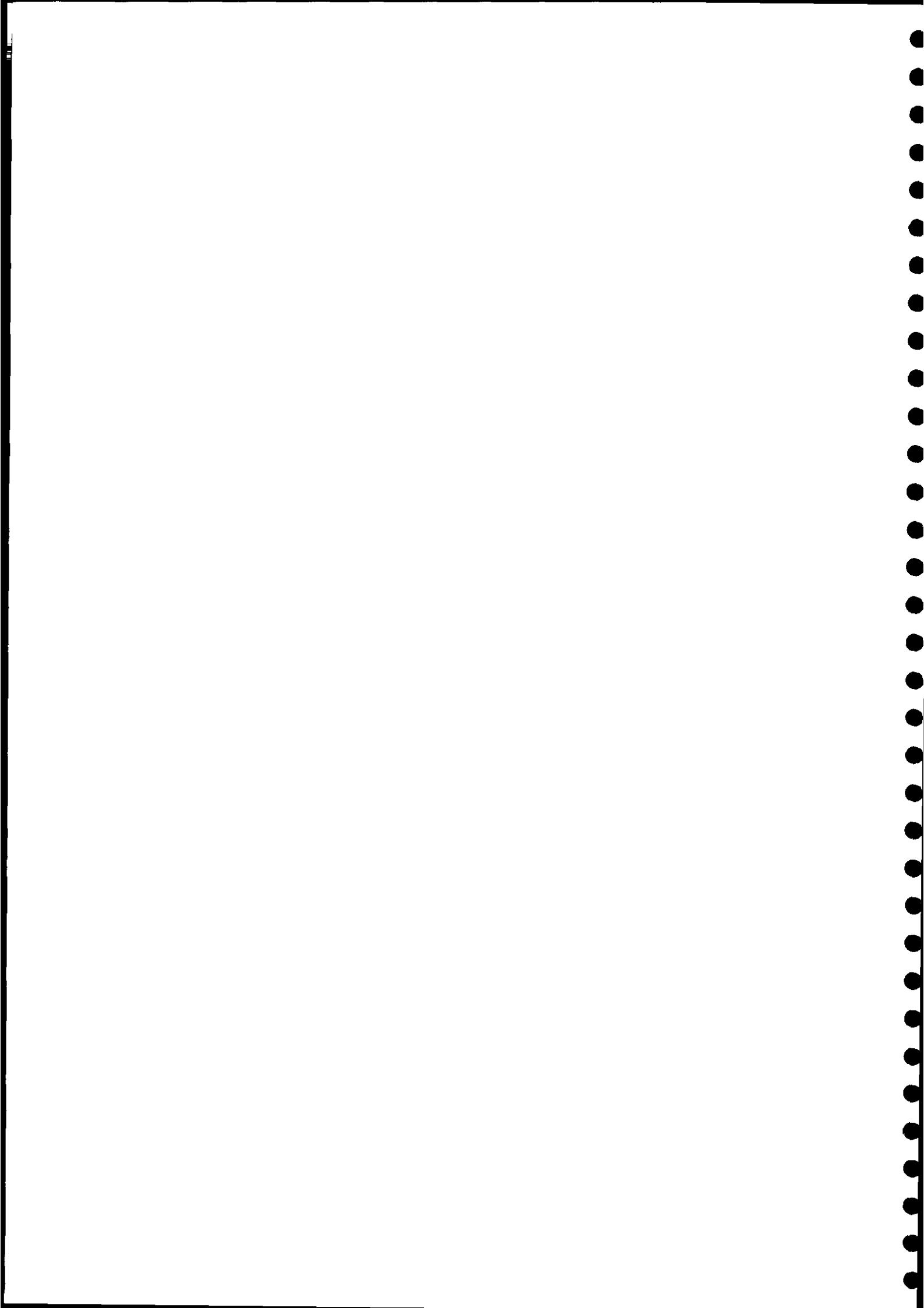
No directors were members of the defined benefit pension schemes (2001: Nil).

8. TAX ON LOSS ON ORDINARY ACTIVITIES

	2002 £'000	2001 £'000
United Kingdom corporation tax at 30% (2001: 30%)	-	-

The tax credit in the period is lower than that resulting from applying the standard rate of corporation tax for the United Kingdom. The differences are explained below.

	2002 £'000	2001 £'000
Loss on ordinary activities before taxation	(714)	(9,664)
Expected credit at 30% thereon	214	2,899
Effects of		
Expenses not deductible	(50)	(140)
Capital allowances in excess of depreciation	38	(804)
Movement on short term timing differences	(202)	-
Trading losses not utilised in the period	-	(1,950)
Sundry	-	(5)
	<u>-</u>	<u>-</u>



NOTES TO THE ACCOUNTS
Year ended 31 December 2002

8. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

No tax credit arises in respect of the trading losses incurred during the year. The unprovided deferred tax asset has been increased to reflect the additional losses. At 31 December 2002 the company had tax losses available amounting to approximately £53 million (2001: £52 million) subject to agreement with the Inland Revenue.

9. TANGIBLE FIXED ASSETS

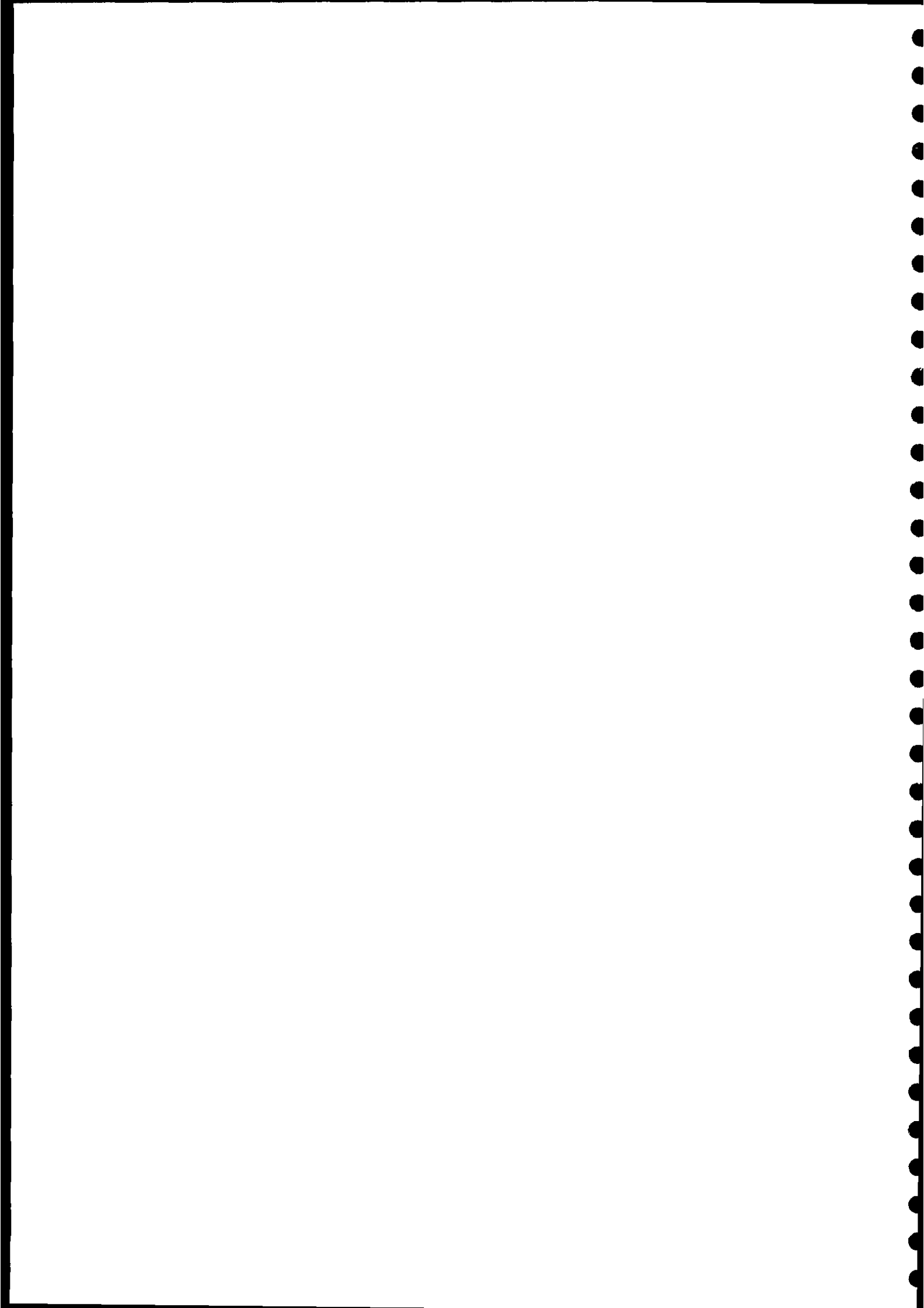
	Freehold land and buildings £'000	Plant and Machinery £'000	Total £'000
Cost			
At 1 January 2002	11,388	44,766	56,154
Additions	-	917	917
Disposals	(3,850)	(6,541)	(10,391)
At 31 December 2002	<u>7,538</u>	<u>39,142</u>	<u>46,680</u>
Accumulated depreciation			
At 1 January 2002	2,494	34,605	37,099
Charge for the year	165	2,070	2,235
Disposals	(594)	(6,386)	(6,980)
At 31 December 2002	<u>2,065</u>	<u>30,289</u>	<u>32,354</u>
Net book value			
At 31 December 2002	<u>5,473</u>	<u>8,853</u>	<u>14,326</u>
At 31 December 2001	<u>8,894</u>	<u>10,161</u>	<u>19,055</u>
Leased assets included in the above:			
Net book value			
At 31 December 2002	<u>-</u>	<u>17</u>	<u>17</u>
At 31 December 2001	<u>-</u>	<u>68</u>	<u>68</u>

10. FIXED ASSET INVESTMENTS

The company owns all of the issued ordinary share capital of each of Texture-Tex (Europe) Limited, White Horse Carpets Limited and Abingdon Carpet (Export) Limited. Each of these entities were incorporated in England and Wales and they are all dormant companies.

11. STOCKS

	2002 £'000	2001 £'000
Raw materials and consumables	8,601	6,714
Work in progress	1,798	1,274
Finished goods and goods for resale	12,235	13,113
	<u>22,634</u>	<u>21,101</u>



NOTES TO THE ACCOUNTS

Year ended 31 December 2002

12. DEBTORS

	2002 £'000	2001 £'000
Trade debtors	11,883	14,128
Amounts due from parent company	1,600	1,637
Prepayments and accrued income	2,121	1,724
	<u>15,604</u>	<u>17,489</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £'000	2001 £'000
Bank loan (see note 14)	682	2,500
Obligations under finance leases and hire purchase contracts (see note 14)	23	40
Trade creditors	11,066	11,159
Bills of exchange payable	-	142
Amounts owed to subsidiary undertaking	674	674
Amounts owed to other group companies (see note 14)	2,624	2,624
VAT	1,842	2,829
Taxation and social security	727	709
Other creditors	1,443	1,383
Accruals and deferred income	7,686	9,908
	<u>26,767</u>	<u>31,968</u>

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002 £'000	2001 £'000
Bank loans	19,079	20,079
Obligations under finance leases and hire purchase contracts	26	53
Amounts owed to other group companies	4,500	4,500
	<u>23,605</u>	<u>24,632</u>

Amounts due under the bank loans at 31 December 2002 are payable as follows:

	2002 £'000	2001 £'000
Amounts payable		
- on demand or within one year	682	2,500
- between one and two years	682	20,079
- between two and five years	18,397	-
	<u>19,761</u>	<u>22,579</u>

The bank loan is stated net of unallocated issue costs of £654,000 (2001: £Nil). These are being allocated to the profit and loss account over the term of the debt at a constant rate of return on the carrying amount. The bank loan is secured via fixed and floating charges over certain assets of the company.

Amounts due under amounts owed to other group companies at 31 December 2002 are payable as follows:

	2002 £'000	2001 £'000
Amounts payable		
- on demand or within one year	2,624	2,624
- between one and two years	-	4,500
- between two and five years	4,500	-
	<u>7,124</u>	<u>7,124</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Obligations under finance leases and hire purchase contracts are repayable as follows:

	2002 £'000	2001 £'000
Within one year	23	40
Within one to two years	26	28
Within two to five years	-	25
	<u>49</u>	<u>93</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

	Pension Obligations £'000	Property £'000	Reorganisation £'000	Total £'000
Balance at 1 January 2002	1,062	44	2,162	3,268
Reclassified from other creditors at 1 January 2002	171	-	-	171
Provided/(utilised) during the year	155	(44)	(2,050)	(1,939)
	<u>1,388</u>	<u>-</u>	<u>112</u>	<u>1,500</u>

Property provision

Property provision related to the costs of discharging a property lease commitment.

Reorganisation provision

This provision represents expected costs directly attributable to the reorganisation of the company's production facilities, incurred in 2001. The remaining costs will be incurred in 2003.

Deferred taxation

The amounts of unprovided deferred taxation are as follows:

	2002 £'000	2001 £'000
Tax effect of rolled over capital gains	-	250
Tax effect of losses carried forward	(15,916)	(15,892)
Excess future tax allowances over book value of fixed assets	(3,946)	(3,491)
Other timing differences	(794)	(592)
	<u>(20,656)</u>	<u>(19,725)</u>

16. CALLED UP SHARE CAPITAL

	2002 £'000	2001 £'000
Authorised		
15,000,000 ordinary shares of £1 each	<u>15,000</u>	<u>15,000</u>
Called up, allotted and fully paid		
12,655,000 ordinary shares of £1 each	<u>12,655</u>	<u>12,655</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

17. MOVEMENTS IN RESERVES

	Share Premium Account £'000	Capital Redemption Reserve £'000	Capital Reserves £'000	Capital Contribution £'000	Profit and Loss Account £'000	Total £'000
At 1 January 2002	160	260	4,431	57,454	(69,862)	(7,557)
Loss for the year	-	-	-	-	(714)	(714)
At 31 December 2002	<u>160</u>	<u>260</u>	<u>4,431</u>	<u>57,454</u>	<u>(70,576)</u>	<u>(8,271)</u>

18. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Opening equity shareholders' funds	5,098	14,762
Loss for the financial year	(714)	(9,664)
Closing equity shareholders' funds	<u>4,384</u>	<u>5,098</u>

19. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Capital commitments

At the end of the year contracted capital commitments were approximately £150,000 (2001: £82,000).

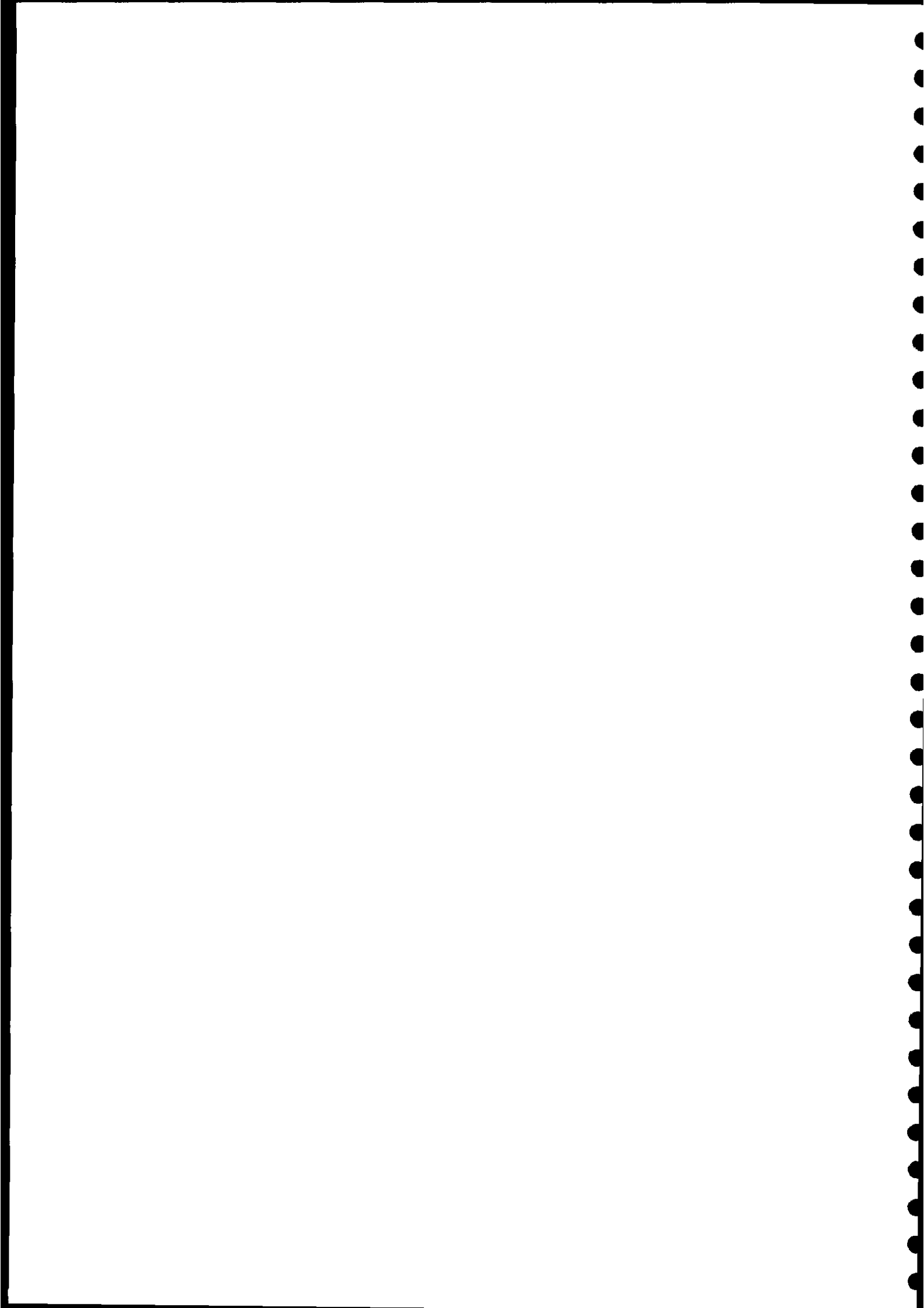
Contingent liabilities

The company is registered with HM Customs & Excise as a member of the Carpets International (UK) group for VAT purposes. All members registered under this scheme are jointly and severally liable on a continuing basis for amounts owing in respect of their VAT liabilities at any time.

Lease commitments

The company leases certain land and buildings on short and long-term operating leases. The annual rental on these leases was £1,868,000 (2001: £1,592,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The company pays all the insurance, maintenance and repairs of these properties.

In addition, the company has entered into non-cancellable operating leases in respect of certain plant, machinery and vehicles, the payments for which extend over a period of up to five years. The total rental, including interest, for the year ended 31 December 2002 was £2,265,000 (2001: £2,446,000). The lease agreements provide that the company will pay all insurance, maintenance and repairs.



NOTES TO THE ACCOUNTS
Year ended 31 December 2002

19. GUARANTEES AND OTHER FINANCIAL COMMITMENTS (continued)

The minimum annual rentals under the foregoing leases are as follows:

	Land & buildings £'000	Others £'000
31 December 2002		
Operating leases which expire:		
- within 1 year	-	57
- within 2-5 years	-	1,564
- after 5 years	1,556	52
	<u>1,556</u>	<u>1,673</u>
31 December 2001		
Operating leases which expire:		
- within 1 year	-	174
- within 2-5 years	616	942
- after 5 years	1,329	56
	<u>1,945</u>	<u>1,172</u>

20. PENSIONS

Pension arrangements

The company's employees are entitled to membership of one of two pension schemes; the Carpets International Pension Scheme and the Abingdon Carpets Pension Fund. These schemes are both defined benefit schemes.

The latest available actuarial valuations for these schemes were as at 6 April 2002.

The 2002 valuation of the Carpets International Pension Scheme showed that the scheme's assets represented 84% of the past service liabilities as at the valuation date and recommended that the regular pension cost would be increased by 7.8% of pensionable salaries over the future working lives of the active members in order to eliminate the deficit at the valuation date.

The 2002 valuation of the Abingdon Carpets Pension Fund showed that the scheme's assets represented 87% of the past services liabilities as at the valuation date and recommend that the regular pension cost would be increased by 5.9% of pensionable salaries over the future working lives of the active members in order to eliminate the deficit at the valuation date.

The company pension charge for the year in total for both schemes was £1,313,000 (2001: £1,751,000).

The next actuarial valuations of the two schemes will be as at 6 April 2005.

FRS 17

In November 2000 the Accounting Standards Board issued FRS 17 'Retirement Benefits' replacing SSAP 24 'Accounting for Pensions Costs'. FRS 17 is fully effective for periods ending on or after 22 June 2005, though certain disclosures are required in the transition period, for periods ending on or after 22 June 2001. These further disclosures are included below.

The actuarial valuations of the Carpets International Pension Scheme and the Abingdon Carpets Pension Fund, carried out as at 6 April 2002, were updated to 31 December 2002 by qualified independent actuaries.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

20. PENSIONS (continued)

The principal assumptions used by the actuaries at each financial year end were:

	2002	2001
Rate of increase in salaries	2.3%	2.5%
Rate of increase of pensions in payment (LPI, minimum 3% p.a.)	3.5%	3.5%
Revaluation of deferred pensions	2.3%	2.5%
Discount rate	5.5%	5.8%
Inflation assumption	2.3%	2.5%

The assets and liabilities of the Carpets International Pension Scheme and the Abingdon Carpets Pension Fund along with the expected rates of return on Scheme assets are shown below:

31 December 2002			
(in £'s million)			
	Expected Rate of Return	Carpets International Pension Scheme	Abingdon Carpets Plc Pension Fund
Equities	8.6%	24.0	9.2
Bonds	4.5%	12.3	2.2
Corporate & Overseas Bonds	5.35%	-	0.6
Cash and other assets	4.25%	0.3	0.4
Insured Annuities	5.5%	-	1.3
		<hr/>	<hr/>
		36.6	13.7
Actuarial value of liabilities		(55.9)	(20.9)
		<hr/>	<hr/>
Deficit in the Scheme		(19.3)	(7.2)
Related deferred tax asset		-	-
		<hr/>	<hr/>
		(19.3)	(7.2)
		<hr/> <hr/>	<hr/> <hr/>

31 December 2001			
(in £'s million)			
	Expected Rate of Return	Carpets International Pension Scheme	Abingdon Carpets Plc Pension Fund
Equities	8.4%	28.0	10.6
Bonds	4.9%	13.8	3.8
Cash and other assets	4.0%	1.0	1.4
		<hr/>	<hr/>
		42.8	15.8
Actuarial value of liabilities		(49.3)	(18.1)
		<hr/>	<hr/>
Deficit in the Scheme		(6.5)	(2.3)
Related deferred tax asset		-	-
		<hr/>	<hr/>
		(6.5)	(2.3)
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

20. PENSIONS (continued)

Movements in deficits during the year:

	Carpets International Pension Scheme (in £ millions)	Abingdon Carpets Pension Fund (in £ millions)
Deficit in scheme at 1 January 2002	(6.5)	(2.3)
Movement in year:		
Current service cost	(1.3)	(0.2)
Contributions	1.0	0.4
Past service costs	-	-
Other finance income	0.2	0.1
Actuarial loss	(12.7)	(5.2)
Deficit in scheme at 31 December 2002	<u>(19.3)</u>	<u>(7.2)</u>

Had the company adopted FRS 17 early, company profit and loss reserves would have been stated as follows:

	31 December 2002 (in £ millions)	31 December 2001 (in £ millions)
Profit and loss reserve in the financial statements as at year end	(70.6)	(69.9)
Deficit in relation to the Carpets International Pension Scheme	(19.3)	(6.5)
Deficit in relation to the Abingdon Carpets Pension Fund	(7.2)	(2.3)
SSAP 24 provision for the Carpets International Pension Scheme	1.4	1.1
Additional net pension liability	<u>(25.1)</u>	<u>(7.7)</u>
Profit and loss reserve as adjusted	<u>(95.7)</u>	<u>(77.6)</u>

	31 December 2002 (in £ millions)	31 December 2001 (in £ millions)
Analysis of the Profit and loss reserve:		
Profit and loss reserve excluding pension liability	(69.2)	(68.8)
Pension liability	(26.5)	(8.8)
Profit and loss reserve	<u>(95.7)</u>	<u>(77.6)</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

20. PENSIONS (continued)

Analysis of amount charged to operating profit

	31 December 2002 (in £ millions)
Current service cost	1.5
Past service cost	-
	<hr style="border-top: 1px solid black;"/>
	1.5 <hr style="border-top: 3px double black;"/>

Analysis of amount credited/(charged) to other financial income

	31 December 2002 (in £ millions)
Expected return on scheme assets	4.2
Interest on scheme liabilities	(3.9)
	<hr style="border-top: 1px solid black;"/>
	0.3 <hr style="border-top: 3px double black;"/>

Analysis of amount recognised in the statement of total recognised gains and losses

	31 December 2002 (in £ millions)
Actuarial return less expected return on scheme assets	(10.8)
Experience loss arising on the scheme liabilities	(0.8)
Loss arises from changes in assumptions underlying the present value of the scheme liabilities	(6.3)
	<hr style="border-top: 1px solid black;"/>
Actual loss recognised in STRGL	(17.9) <hr style="border-top: 3px double black;"/>

History of experience gains and losses

	31 December 2002 (in £'s million)	
	Carpets International Pension Scheme	Abingdon Carpets Plc Pension Fund
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	(7.5)	(3.4)
% of scheme assets	-21%	-25%
Experience loss on scheme liabilities:		
Amount (£'000)	(0.6)	(0.2)
% of the present value of the scheme liabilities	-1%	-1%
Total amount of loss recognised in statement of total recognised gains and losses:		
Amount (£'000)	(12.8)	(5.2)
% of the present value of the scheme liabilities	-23%	-25%

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

21. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption contained in FRS 8 not to disclose details of related party transactions with other group companies.

During the period the company paid £191,234 (2001: £174,722) to CGW Southeast Partners III LLP, the ultimate controlling party, in relation to management services received. CGW Southeast Partners III LLP also settled certain salary expenses on behalf of Carpets International (UK) Limited amounting to £550,330 (2001: £700,258), and these expenses have been recharged by CGW Southeast Partners III LLP to Carpets International (UK) Limited. At 31 December 2002 £49,745 (2001: £56,362) was due to CGW Southeast Partners III LLP.

In December 2001 CGW Southeast Partners III LLP issued the company with £4.5million of unsecured loan notes initially due for repayment on 30 April 2003. In November 2002 the £4.5million of unsecured loan notes were reissued and are now due for repayment on 27 November 2005. Interest is payable on this amount at a rate of 6% p.a. At 31 December 2002 accrued interest of £270,000 (2001: £nil) was due to CGW Southeast Partners III LLP.

22. PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

The company is a wholly owned subsidiary undertaking of Carpet Holdings Limited, a company incorporated in England and Wales. The consolidated accounts of Carpet Holdings Limited may be obtained from Companies House, Crown Way, Maindy, Cardiff.

CGW Southeast Partners III LLP own 96% of the total issued share capital of Carpet Holdings Limited.